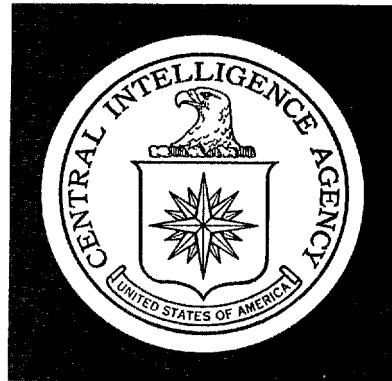


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[South Vietnam: Communist military actions tapered off on 12-13 January following widespread enemy mortar shellings over the weekend in III and IV corps.

There were two enemy attacks against allied installations in the delta on 12-13 January, however, and extensive damage was inflicted on US helicopters.

Ground contacts remained generally light and scattered. Over 60 Communists were killed in skirmishes in the provinces north of Saigon, and another 25 enemy troops were killed by South Korean forces along the coast of II Corps.

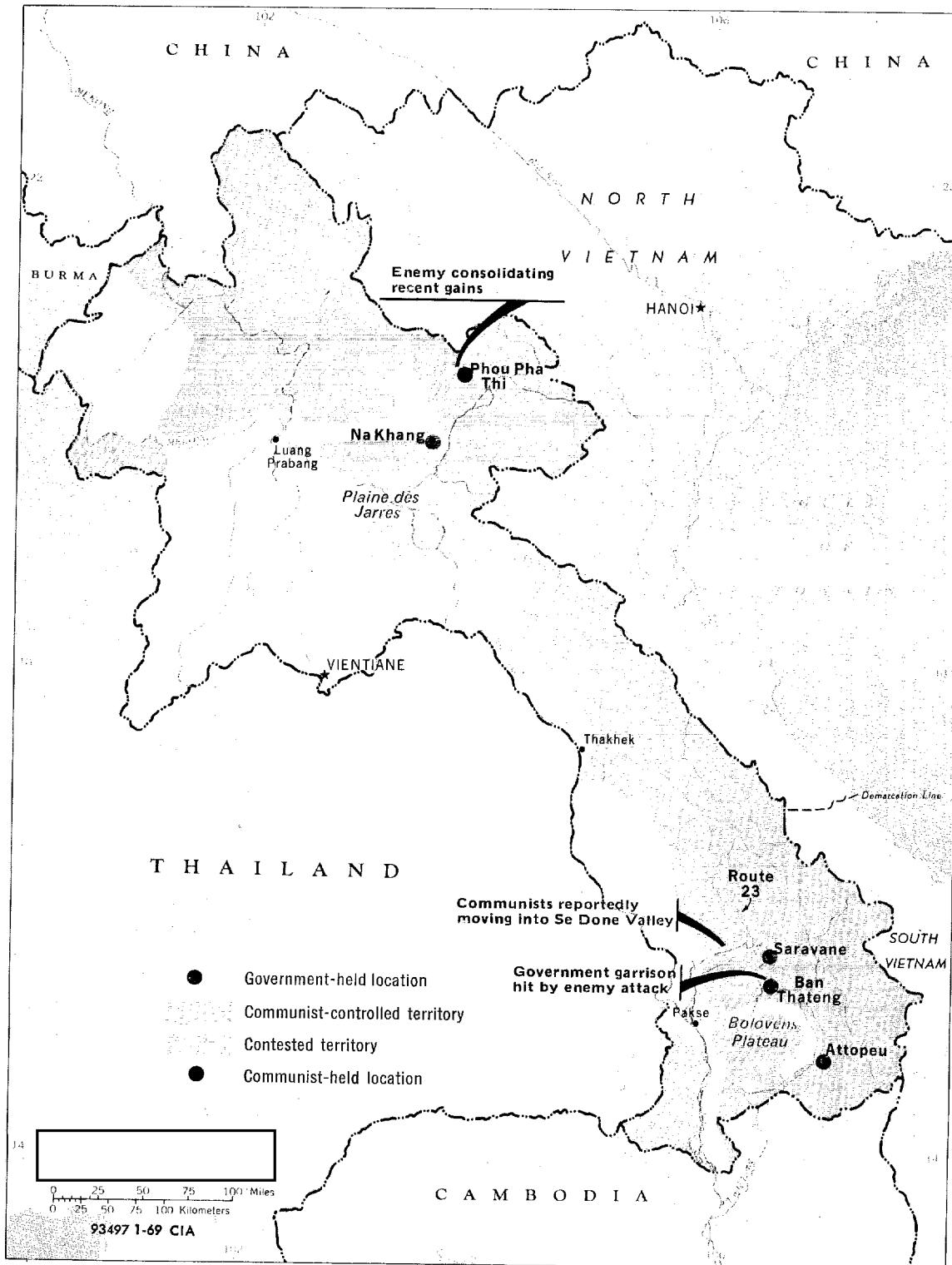
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Communist Pressure Returns to Southern Laos



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Laos: The military situation is heating up again in the south.

After a three-week respite, the government base at Ban Thateng has again become the target of North Vietnamese forces positioned along the eastern rim of the Bolovens Plateau. The garrison was hit with a heavy mortar attack and light ground probes on 12 January, in what appears to be the start of a fresh campaign to force the government to surrender that strategically located position. As many as three North Vietnamese battalions are dug in around the base, and the weary 400-man defending force may not hold out even if the enemy does not launch an all-out ground assault.

Evidence continues to mount, meanwhile, that the Thateng operation is part of a wider Communist effort to reduce sharply the government's presence around the Bolovens. Villagers in the Se Done Valley report that the enemy has opened Route 23, which connects with the main supply corridor from North Vietnam, and is moving both troops and supplies into the area. In addition to increasing harassment against the provincial capital of Savane, the enemy appears to be preparing for a push against government positions along the western edge of the valley. Last year at this time, North Vietnamese and Pathet Lao troops moved into the Se Done area and began offsetting the gains of a two-year government development and proselytizing program.

In the north, the enemy is moving quickly to consolidate its hold in the Phou Pha Thi area. North Vietnamese reinforcements have overrun several outlying government bases in recent days, and it appears to be only a matter of time before most of the government's gains of the past several months will be lost. The situation at Na Khang, where the next major Communist effort in the north-east may come, is quiet at the moment.

[Map]

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Sweden - North Vietnam: Sweden's recognition of North Vietnam surprised other Nordic countries, which have made it known that they do not intend to follow Stockholm's lead.

The Danes maintain that this is not the time to recognize Hanoi and they will await developments at the Paris peace talks. Although the government has still to take formal action, the Norwegians have made it clear that they will hold to their policy of not recognizing more than one part of such divided states as Vietnam. The Finns quickly announced that their policy of not establishing diplomatic relations with divided states would preclude their recognizing Hanoi.

Within Sweden, the government's move has not been criticized, but its timing and handling have been questioned. Spokesmen for the non-Socialist opposition parties have expressed doubt that developments at Paris justify such haste and believe that needless strain has been placed on relations with the US. The leader of the Swedish Communist Party, aware that a favorite far-left issue had been pre-empted by the government, is said to be angry that the move was made before parliament could meet to discuss it.

In an effort to prevent speculation on further moves, government officials have told the press that there would be no change in Sweden's policy of not recognizing East Germany or North Korea, and no decision would be made for the present on the "delicate question" of resuming full relations with Saigon.

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West Germany - USSR: An air of optimism appears to be taking hold in the West German foreign office over prospects for improved relations with Moscow.

One official has indicated that while there was nothing spectacular or new in Ambassador Tsarapkin's latest presentation to Foreign Minister Brandt on 10 January, there was cause for encouragement in Tsarapkin's pleasant manner and advocacy of continuing the talks.

Tsarapkin left with Brandt an informal note in which Soviet objections to holding the West German presidential election on 5 March in West Berlin were again registered. At the same time, he said that exchanges of views on other issues had "positive aspects."

Soviet diplomats have been "detente minded" at recent appearances in other Western European capitals as well. In the case of Bonn, Moscow evidently hopes that encouraging West German interest in movement on bilateral matters--including pending negotiation of a civil air pact and further discussion of a nonuse of force agreement--will help persuade Bonn to keep the presidential election out of Berlin.

The relatively "soft" Soviet approach also is designed to play on differences among the Allies and within the Bonn government over the advisability of proceeding with the Berlin event. Moscow has kept open the possibility of countermeasures if the election is held in Berlin, however, and has made clear that Bonn must bear the brunt of "unfavorable consequences." Nevertheless, the West German foreign office has expressed the view that Moscow does not intend to cut off bilateral talks over this issue.

According to the West Germans, no decision has been made on how, when, or where to pursue future exchanges with the Soviets.

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Lebanon: Premier-designate Karami's difficulty in forming a new cabinet may plunge the country into an even deeper political crisis.

Wrangling between the parliament's rival blocs is still preventing agreement on the composition of a new cabinet, while President Hilu, burdened with the events of the past few weeks, is on the verge of physical exhaustion and appears to the US Embassy to be in a depressed state of mind.

If the cabinet crisis should be prolonged, the possibility of a military take-over would increase, especially in view of the army's present humiliation over the Beirut airport incident and the precarious Middle East situation.

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Turkey: A new wave of student and labor unrest is developing.

An increasing number of clashes between left- and right-wing student groups in recent days suggests that extremist elements of both factions have adopted a strategy of violence. Self-styled rightist "commandos," possibly the action arm of the small Republican Peasant Nation Party (RPNP) headed by neofascist Alpaslan Turkes, have staged two raids on university dormitories housing leftist students. The leftists retaliated by trying to lynch an alleged leader of the raiders. Further violence has been threatened if leftist students involved in the recent burning of the US ambassador's car are prosecuted.

At the same time, labor unrest appears to be growing. Late last week a group of workers seized control of an industrial plant near Istanbul as a protest against foreign investment in Turkey. They threatened to burn the plant if the police tried to dislodge them by force. They relinquished control of the plant, however, after a minor clash and a police ultimatum.

A brief sit-in also took place at a refrigerator plant in Istanbul. This may have been the result of a bona fide labor dispute; nonetheless some workers and police were injured before order was restored.

The government is preparing several bills designed to limit extremist activities in Turkey and has promised to ban the RPNP if an investigation indicates that the "commandos" are in any way connected with the party. Unless these legal moves to counter extremist activities are successful, the security forces will have an increasingly difficult time coping with the violence. [redacted]

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Nepal: King Mahendra's recent pardon of 175 political exiles is a major step forward in the continuing process of accommodation between the King and his non-Communist opposition.

The pardoned exiles--all reportedly members of the proscribed Nepali Congress Party (NCP)--were convicted of crimes against the state following Mahendra's ouster of the elected NCP government in 1960. Their absolution is probably a direct outcome of negotiations between the King and the recently pardoned acting president of the NCP, Subarna Shumsher. Shumsher returned to Nepal in December after publicly pledging the party's loyalty to the King and his partyless political system last May. Approximately 700 NCP exiles are alleged to be in India; but because of the ties that they have established there, it is doubtful that all of them are interested in returning to the kingdom.

Mahendra has steadfastly insisted that pardons will be granted only on the basis of individual petitions. His refusal to grant a general amnesty to all political exiles has enabled him to fend off demands from Communist exiles seeking equal treatment with the NCP.

In spite of the efforts of the Communists and some disgruntled politicians to frustrate the King's reconciliation with the NCP, it appears that Mahendra is determined to permit the gradual evolution of a more liberal political environment as long as it does not undermine his own paramount authority.

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Panama: There have been fresh clashes between guerrillas and national guard troops near the Costa Rican border during recent weeks.

Fire fights reported on 27 December, 9 January, and 11 January were presumably instigated by the supporters of ousted president Arias who infiltrated into this remote mountainous region from Costa Rica in late November. Several guardsmen were killed and others wounded in these skirmishes.

The insurgents had dropped out of sight in mid-December after a series of similar border incidents. Their reappearance suggests that they are attempting to take advantage of local hostility toward the guard, whose arbitrary measures have alienated much of the populace in the area. It appears unlikely, however, that the insurgent movement will create more than a temporary diversion for the government.

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NOTES

West Germany - East Germany: Trade turnover between West and East Germany last year rose to \$725 million, seven percent above the 1967 level, according to preliminary statistics. This increase occurred despite a more than six-percent decline in trade during the first half of the year. The over-all rise apparently was because of higher West German purchases, particularly of East German grain, during the latter part of the year. The trade agreement concluded between Bonn and Pankow last month, which includes several important concessions to the East Germans, probably will lead to more trade in 1969 than in the peak year of 1966, when the level reached \$750 million. [redacted]

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Netherlands - North Korea: A leading Dutch shipbuilder, whose yard is building two fish factory ships for North Korea, continues to lobby for a "permanent or semipermanent" Korean representation in the Netherlands. The Dutch Foreign Ministry has rejected these overtures in the past. North Korea's economic development plan calls for a major expansion of its fishing fleet, and an official of the ministry suspects that the shipbuilder is seeking new contracts. The Dutch have admitted North Korean technicians on a temporary basis, but the shipbuilder finds this arrangement less than satisfactory. The two ships under construction are to be delivered by Dutch crews in March and September. [redacted]

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(continued)

Peru: The military government appears ready to embark on a new series of repressive actions against former officials. The minister of government has announced the arrest of a former cabinet member for crimes against the state and said that "others will fall soon." For the moment the government's "moralization campaign" appears aimed primarily at officials of the Belaunde administration who were involved in dealings with the International Petroleum Company. Three former ministers who were detained temporarily in October for their role in Belaunde's settlement with the company have since taken refuge outside the country.

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